

WASHINGTON (MarketWatch) — Many borrowers in the country's most expensive housing markets will be forced to make higher down-payments and pay higher rates for large 30-year-mortgages starting Saturday.

That's because, starting Oct. 1, the maximum size of loans that can be guaranteed by the government controlled Fannie Mae and Freddie Mac drops from a maximum of \$729,750 in high-cost markets to a maximum of \$625,500. Also, many borrowers who previously were eligible to participate in a Federal Housing Administration program will no longer qualify for special lower down-payments.

"The down-payment issue is the most significant aspect from borrowers standpoint," said Greg McBride, a senior financial analyst at Bankrate.com. "These changes will price some prospective borrowers out of the market."

Observers agree that one area that is expected to impact borrowers the most is with down-payments. Many larger borrowers have been eligible to buy homes with 3.5% down-payments through the FHA program. But now that these borrowers no longer qualify for the program, they will need to put significantly more down.

"When the goal posts move you could go from being eligible for a 3.5% down payment FHA loan to now needing 20% down for a loan," McBride added. "Somebody who is looking to borrow \$350,000 today might not be eligible for an FHA loan."

The FHA reported in May that had the lower loan limits been in place throughout 2010 roughly 33,000 borrowers — representing \$14 billion in mortgages — would not have been approved to participate in the program, which typically seeks to help first time-borrowers.

FHA loan limits vary based on area median home price, but all starting Saturday, all will fall within the range of \$271,050 and \$625,500 for one-unit mortgages.

For example, a borrower in Fort Lauderdale and Pompano Beach, Florida who previously could qualify for the FHA program with a \$423,750 mortgage can now only qualify for one with a maximum \$345,000 loan.

Also, many borrowers who previously were eligible for Fannie- and Freddie-backed mortgages, now will need to pay higher down-payments and could need better credit scores to be eligible for a home loan. According to a May FHFA report, Fannie and Freddie bought about 50,000 loans — about \$30 billion worth — in 2010 where the loan balances exceeded the post Oct. 1 loan limits. Read the report

Mike McMahon, managing director at Redwood Trust, Inc., said it is realistic for borrowers of mortgages that no longer qualify for a Fannie or Freddie guarantee to put a down-payment of between 20% and 30%. However, he added that this requirement may not be too much of a burden on many jumbo-loan borrowers. He argued that many of these borrowers have accumulated enough assets to make those payments.

McMahon added that borrowers who until recently have received government-backed loans in the \$700,000 price range must have incomes of \$150,000 or more to avoid the mortgage payments.

“Why should we be subsidizing borrowers who have \$150,000-plus income level?” McMahon asked.

Analysts say the change has already impacted interest rates for jumbo 30-year mortgages, which stand at about three-quarters of a percentage point higher than non-jumbo loans.

For example, the interest rate for a 30-year-fixed rate mortgage for a non-jumbo loan is 4.05%, while a jumbo loan has a 4.81% rate, according to Bankrate.com

Lenders have already priced in the new levels because many loans that have been originated in the past month won't close until after today.

Paul Dales, senior economist at Capital Economics, said that with mortgage interest rates for 30-year-mortgages already at record low levels, the hike in interest rates for these mortgages won't be so significant that they discourage borrowers.

"These borrowers can get jumbo loans at a bit more than half a percentage rate higher than everyone else, but with mortgage rates incredibly low it shouldn't be much of a bind," said Dales.

Ron Haynie, president of Independent Community Bankers of America Mortgage, agreed.

"It isn't like these people will pay 7% or 8%," Haynie said. "It won't be as attractive as a Freddie Mac 30-year-loan, but it still will be affordable and attractive."

A few dozen lawmakers, mostly Democrats, sought unsuccessfully to have legislation approved that would create a short-term extension of the regulations and keep the higher loan limits in place.

Rep. John Campbell, Republican of California, led an effort to attach a provision keeping the guarantees in place to a temporary funding measure, known as a continuing resolution, to keep the government running when fiscal 2012 begins come October.

Jaret Seiberg, analyst at MF Global Inc. in Washington, said he expects the homebuilders lobby and the National Association of Realtors to push to restore the higher limits as part of any bill funding the government for 2012.

"We believe the odds for success are low as the industry just lost the fight," Seiberg said.